Auditor-General of South Africa

Ingwe Municipality - audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Ingwe Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Ingwe Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ingwe Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

8. As disclosed in note 4 to the financial statements, material impairments to the amount of R5,27 million (2015: R8,16 million) were incurred as a result of an annual review of the recoverability of receivables from exchange and non-exchange transactions.

Events after reporting date

9. As disclosed in note 42 to the financial statements, Ingwe Municipality merged with Kwa Sani Local Municipality after the local government elections to form Dr Nkosazana Dlamini-Zuma Municipality. This arose due to a redetermination of boundaries in terms of section 21 of the Local Government: Municipal Demarcation Act of South Africa, 1998 (Act No. 27 of 1998). Consequently, Ingwe Municipality ceased to exist from 9 August 2016.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for to unlock access to economic opportunities, social services and facilitate additional infrastructure provision and to construct community recreational amenities and maintain existing structures presented in the annual performance report of the municipality for the year ended 30 June 2016.

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the objectives to unlock access to economic opportunities, social services and facilitate additional infrastructure provision as well as to construct community recreational amenities and maintain existing structures.

Additional matter

18. I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, however, I draw attention to the following matter:

Achievement of planned targets

19. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

Compliance with legislation

20. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

21. The key performance indicators set by the municipality did not include an indicator on the percentage of households with access to basic level of solid waste removal as required by section 43(2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and the Municipal Planning and Performance Management Regulation 10(a).

Annual financial statements

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditor in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

23. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

24. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

26. Leadership did not adequately monitor their audit action plan to confirm that effective measures were taken to address their previous findings on compliance with key legislation.

Financial management

27. A checklist to monitor compliance with legislation relating to strategic planning and performance management, consequence management and expenditure management was either not developed or updated by management to include all of the key legislation requirements.

Auditor - General
Pietermaritzburg

30 November 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence